

Tax Policy Update: 2012 Legislative Session

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Secretary of Finance and Administration

Presented to

Revenue Stabilization and Tax Policy Committee

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Executive Budget Priorities

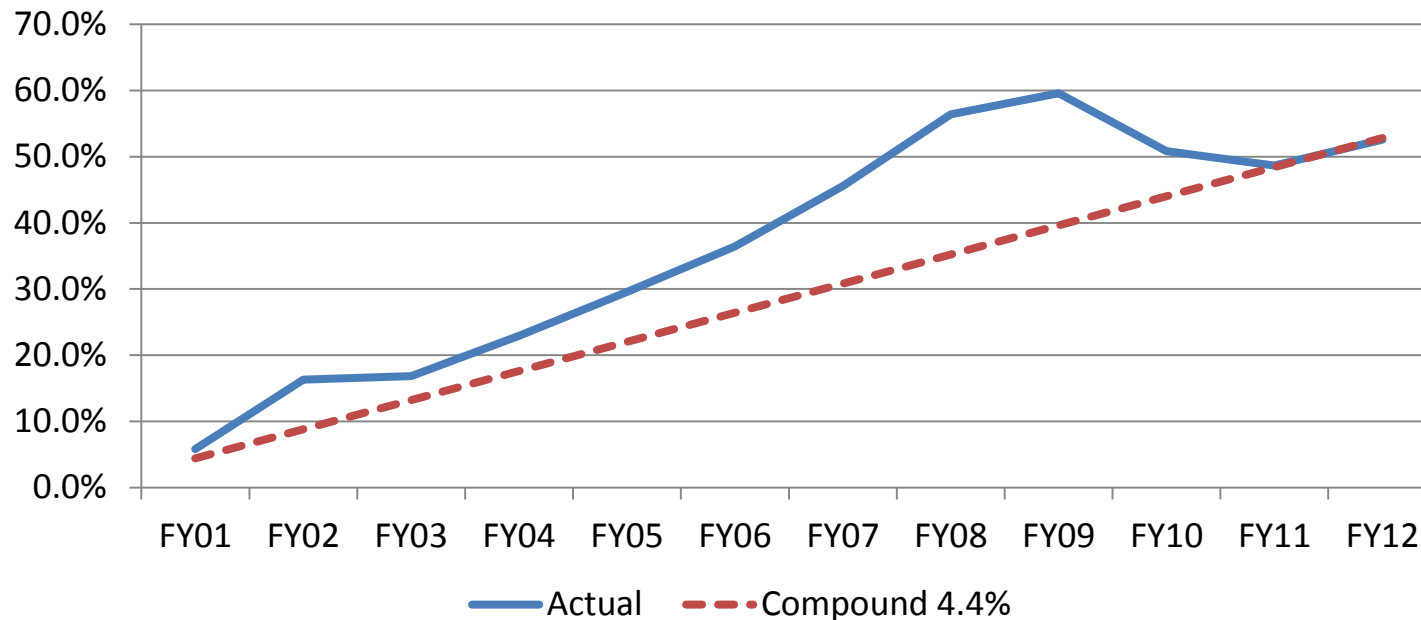
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- **Sustainable budgets**
- Education reform
- **Competitive tax policies**
- Meeting fundamental needs
- Protecting public safety
- Efficient and accountable government

Sustainable Budgets

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General Fund Spending Growth Since FY00



- *Even with recent reductions, FY13 spending is up almost 70% since 2000*
- *This exceeds the combined growth of population and inflation (3.9%/year)*
- **Spending growth of 4% per year is sustainable**

Sustainable Budgets

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General Fund Financial Summary (Dollar Amounts in Millions)

	FY11	FY12	FY13
Recurring Revenue	\$5,408	\$5,533	\$5,677
Recurring Appropriations	\$5,213	\$5,431	\$5,650
% change from prior year	(2.7%)	4.2%	4.0%
Ending Balances	\$501	\$488	\$505
% of Appropriations	9.6%	9.0%	8.9%

- Limited spending growth in FY12 and FY13 preserved GF reserves
- Excess revenue growth can be used for one-time needs and for tax reform

General Fund Revenue Performance

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- FY12 revenue grew by 9.0%, +\$330 million through 9 months
- 2.3% growth was forecast
- O&G revenues about 1/2 of growth
- GRT up 7.4%
- PIT up 10%
- Source: DFA General Fund Report

Important Tax Legislation Passed and Signed

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- Construction & manufacturing pyramiding relief: HB184 & HB256/SB276
- Veterans employment tax credit: HB10
- Pass-through Entity Withholding: SB212
- Unemployment contribution decrease: SB32

Construction & Manufacturing Pyramiding Relief

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- “Construction-related services” deductible if project subject to tax
- Construction equipment leasing deductible if project subject to tax
- Manufacturers’ purchases deductible if consumed in manufacturing; Phased in over 5 years
- Increased revenue sharing for small cities and counties will mitigate fiscal impacts

Veterans Employment Tax Credit

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- Up to \$1,000 of wages pro-rated by portion of the year employed
- Employed within 2 years of discharge
- Maximum one year per employee
- Must be a new employee to the employer
- Corporate and Individual Income Tax credits
- Effective Tax Year 2012

Pass-Through Entity Withholding

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- O&G remitters can use federal information returns to comply with new state requirements
- Other PTE's will report annually rather than quarterly; due dates conform with federal reporting
- PTE's withhold on allocable income
- Other simplification, clean-up

Important Tax Legislation Not Passed

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- Small business tax simplification: HB189
- R&D GRT relief: HB159
- Veterans pension exemption: HB162/SB129
- High-Wage Jobs Tax Credit Reform: HB245
- Property tax “lightning” reform: SB145

Small Business Tax Simplification

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- Deduction if total receipts less than \$50,000
- Annual report would be matched with federal tax reports
- Half of all businesses pay 1% of tax

R&D Pyramiding Relief

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- R&D services sold directly to the US DOD or sold to a contractor doing business with the DOD
- Services related to lasers or satellites

Veterans Pension Credit

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- Credit for PIT liability from military retirement income
- Phased in over 4 years
- Aimed at recruitment and retention of skilled labor force

High-Wage Jobs Credit Reforms

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- Time limit for credit claims
- Improved targeting to true “economic-base” jobs
- Clarify definition of “wages,” “benefits”

Tax Legislation Passed But Not Signed

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- Mandatory Combined reporting: SB9
- Motor Vehicle Excise Tax to Road Fund: HB290

Other Issue: Administrative Reforms

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- Independent hearing officers
- Independent tax ombudsman
- Apply uniform and more transparent rulemaking, audit and protest procedures
- Extend filing and protest periods
- Reform non-taxable transaction certificate rules to improve predictability

Other Issues: Corporate Tax Reform

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- US/State tax rate is now highest in the world
- Complexity imposes heavy compliance burden
- Inequitable, most liability falls on less than 10% of NM businesses
- Economic incidence unknown, likely on local labor force
- Goal of reform is to reduce the burden of this tax